

9 January 2024

Consumer Non-cyclical | Food & Beverage Products

## Food & Beverage Products

## Overweight (Maintained)

### Consumption To Accelerate In 2024; Still O/W

Stocks Covered 3  
 Rating (Buy/Neutral/Sell): 3 / 0 / 0  
 Last 12m Earnings Revision Trend: Negative

- **Still OVERWEIGHT on Singapore midstream food manufacturers and brand owners.** We stay positive with BUYs on our midstream consumer universe – Thai Beverage (THBEV), Delfi (DELFI), and Food Empire (FEH) – which are beneficiaries of recovering consumption across Thailand, Vietnam, and Indonesia. We see stronger regional consumer spending ahead on stronger domestic consumption, accelerating GDP growth, and tourist recovery. Sub-sector valuation of 8-12x FY24F P/E is compelling, with 4.3-5.3% dividend yield and FY24F earnings growth of 5.8% YoY.

- **Consumer sentiment has remained robust.** Since our last sector update in Oct 2023, consumer confidence indices for both Thailand and Indonesia have continued to improve. Thailand's Nov 2023 consumer confidence has recovered to an all-time high (c.60pts) since the COVID-19 lockdowns but remains shy of pre-pandemic levels (c.70pts). Both government stimulus and tourist arrivals have driven Thailand's consumer confidence in recent months. Indonesia's consumer confidence index has remained robust at c.125pts for Oct and Nov 2023 – well above Sep 2023's reading and 2022's numbers. This was due to steady labour force participation and employment rates. There is no consumer confidence index for Vietnam.

- **Regional GDP growth recovery on the cards.** We continue to see our coverage universe's marketing teams spending more on brand investment and promotion this year. This is to capitalise on recovering consumer confidence to rake in revenue growth on a more positive regional GDP outlook, and stronger GDP growth and better consumer confidence. Our economics team estimates that Thailand and Vietnam's GDP growth are each expected to accelerate from 2.5% and 4.7% this year to 4% and 6.4% next year. Meanwhile, Indonesia's GDP growth is forecast to maintain at a robust 5% next year.

- **Lower FY22-25F's sub-sector earnings growth at a CAGR of 1.8%.** Since our last update, we have moderated our sub-sector earnings growth CAGR from 4.8% – largely due to an earnings adjustment for THBEV, as its beer business was weak. Nonetheless, we still expect the sector to ring in earnings growth of 5.8% and 7.2% YoY for FY24 and FY25, driven largely by revenue growth, on the back of improved consumer demand and spending outlook. We expect to see companies gearing up for more aggressive marketing spend, and new product and product variant launches, to drive growth.

- **Stock pick strategy: All BUYs but favour DELFI and THBEV over FEH.** We advocate DELFI for its exposure to Indonesia's consumption recovery (product variants, premiumisation, and healthy snacking strategy), and THBEV for Thailand and Vietnam's domestic consumption recovery (including tourist spend). FEH should continue to do well in its key markets of Russia, Ukraine, Kazakhstan, and the Commonwealth of Independent states or CIS, as it invests more on brand building. The stock is slightly riskier, given that it is exposed to swings in the riskier RUB and risk events happening within its key markets.

- **OVERWEIGHT; sub-sector valuation matrices appear attractive.** We are OVERWEIGHT on the consumer midstream sub-sector, as all of our three stock picks are BUYs. They are each trading below their respective historical P/E mean, have attractive dividend yield, and all have strong ROEs of 14-19%.

#### Top Picks

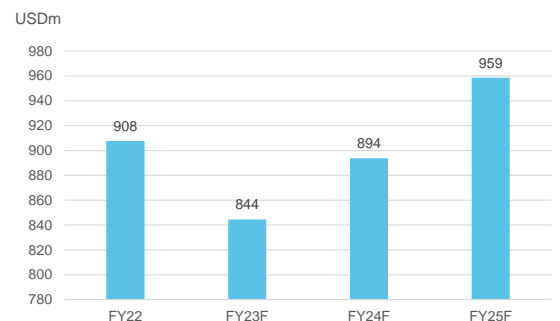
Stock	Target Price
Thai Beverage (THBEV SP) – BUY	SGD0.82
Delfi (DELFI SP) – BUY	SGD1.55
Food Empire (FEH SP) – BUY	SGD1.53

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#### Sub-sector net profit – CAGR growth of 1.8%

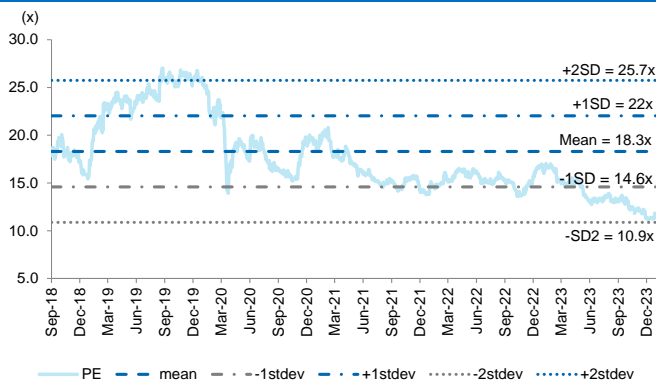


Source: Company data, RHB

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
Delfi	Buy	1.55	41.1	9.4	1.7	19.2	5.3
Food Empire	Buy	1.53	35.3	7.7	1.3	17.5	4.9
Thai Beverage	Buy	0.82	52.4	12.0	1.6	13.9	4.3

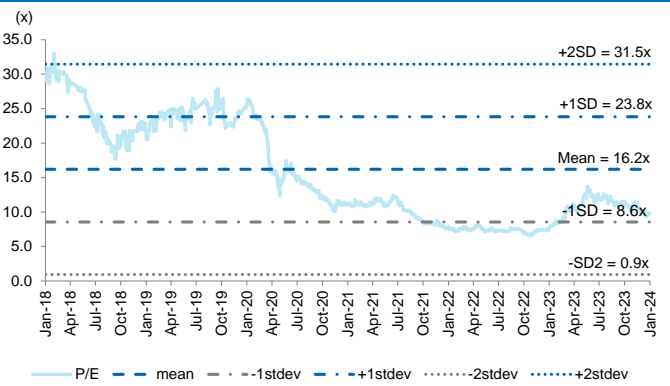
Source: Company data, RHB

Figure 1: THBEV's historical P/E mean



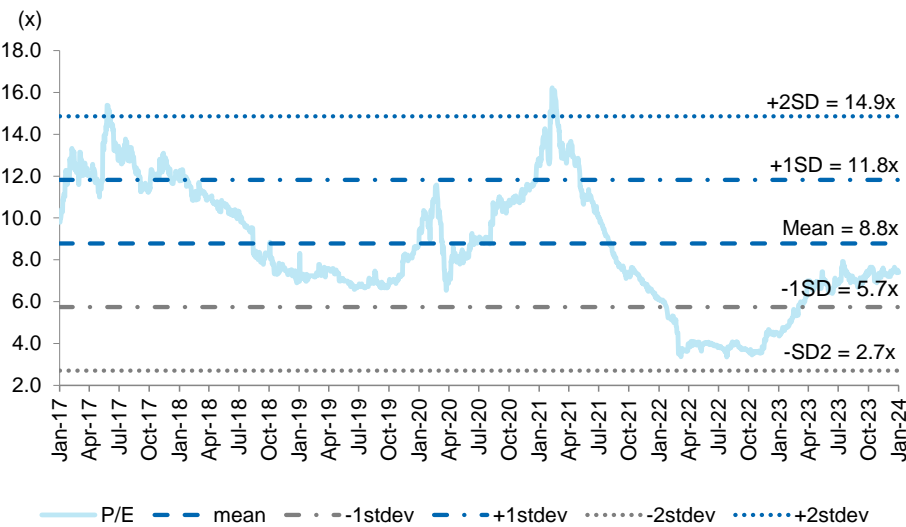
Source: Bloomberg

Figure 2: DELFI's historical P/E mean



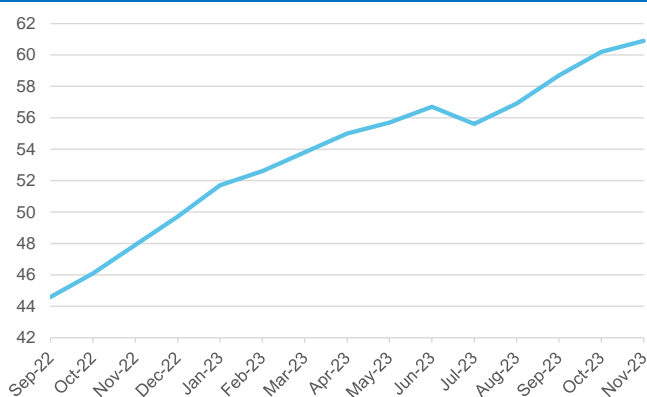
Source: Bloomberg

Figure 3: FEH's historical P/E mean



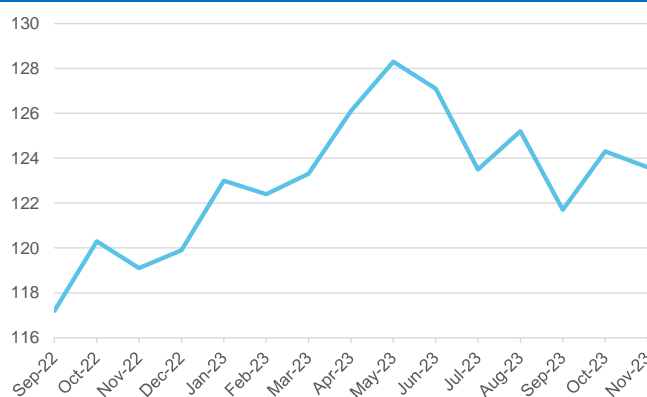
Source: SingStat

Figure 4: Thailand's Consumer Confidence Index



Source: University of the Thai Chamber of Commerce

Figure 5: Indonesia's Consumer Confidence Index



Source: Bank Indonesia

Figure 6: More optimistic on regional GDP growth outlook

GDP growth %	2022	2023F	2024F	Stocks
Thailand	2.6	2.5	4.0	THBEV
Vietnam	8.0	4.7	6.4	THBEV, FEH
Indonesia	5.3	5.1	5.0	DELFI

Source: RHB

Figure 7: Sub-sector growth CAGR at 1.8%

Stock	Currency	FYE	FY22	FY23F	FY24F	FY25F	CAGR %
THBEV	THBm	Sep	30,106	27,435	28,922	30,991	1.0%
FEH	USDm	Dec	50	56	58	61	6.9%
DELFI	USDm	Dec	44	47	54	60	10.9%
Stock universe total	USDm		908	844	894	959	1.8%
Growth YoY%				-6.9%	5.8%	7.2%	

Source: RHB

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